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UNCLAS SECTION 01 OF 02 MUSCAT 000896

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SUBJECT: LOFTY AIRLINE PLANS REMAIN INTACT

REF: A. MUSCAT 539
[1B](#). MUSCAT 385

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Summary

[¶11.](#) (SBU) Heady expansion plans for both Gulf Air and Oman Air remain on track. While it is still unclear if the Omani market, and Muscat's undersized airport, can support such lofty ambitions, the commitment of both airlines to Oman appears firm. End Summary.

Gulf Air to Everywhere

[¶12.](#) (SBU) In a May 31 meeting with Econoff, Gulf Air Muscat Manager Bennet Stephens (protect) reviewed the status of his company's transition from its former Abu Dhabi operations to Muscat's Seeb International Airport. In addition to new non-stop daily service to London Heathrow and Paris, Stephens remarked that Gulf Air will roll out non-stop daily service to Bangkok, Jakarta, Kathmandu, and Karachi. Gulf Air will also add double daily service to Mumbai as well as non-stop service to Kuala Lumpur three times weekly.

[¶13.](#) (SBU) Stephens commented that the percentage of passengers transiting the Muscat hub remains unchanged at 60%, but emphasized that in actual numbers, Gulf Air's transiting and destination passenger counts have increased significantly. While Gulf Air's U.S.-bound traffic had been down since September 2001, Stephens expressed optimism that the recent up-tick in reservations would continue, and that the airline's codeshare with American Airlines would generate additional travel.

[¶14.](#) (SBU) Stephens cautioned that Gulf Air's rapid ramp-up has not come without growing pains, given that Seeb Airport is an older, smaller facility compared to its regional competitors.

Hoping the Omani government will accelerate its timetable for Seeb Airport expansion, Stephens remarked that current apron space is at a premium, since only three additional parking slots have been added to the 18 previously available.

Stephens also expressed dismay at the lack of hotel inventory near Seeb Airport (currently limited to one hotel within ten kilometers), which has created problems for those passengers with missed connections.

[¶15.](#) (SBU) In response to concerns that Gulf Air would continue to be overshadowed by regional competitors such as Emirates and Qatar Airways, Stephens outlined his company's steps to position itself as a medium-sized boutique carrier. He noted that Gulf Air has been refurbishing its first and business class sections with lie-flat beds, adding sky chefs to its first class sections, and providing sky nanny services on routes to Europe and Australia. Gulf Air has also spruced up its lounges in London and Bahrain, and is planning to introduce satellite television to its in-flight entertainment menu. Finally, Gulf Air is in the midst of evaluating proposals from Boeing and Airbus to renew its fleet with up to 47 medium and long-range aircraft. (Note: Stephens deflected to his corporate headquarters in Manama Econoff's queries about Boeing's prospects for additional sales. End note.)

Oman Air Remains Expansion-Minded

[¶16.](#) (SBU) In a May 30 meeting with Econoff, Oman Air Commercial Director Ed Grauvogl (protect) also reiterated his company's plans to expand into the long-haul market. In the wake of Gulf Air's growing presence in Muscat, Grauvogl remarked that Oman Air needed to augment its current fleet

and route structure in order to remain competitive. For this reason, Grauvogl reaffirmed Oman Air's plans to add two additional 737s and three 767s over a two-year time span, stating that the flag carrier's expansion into European and Asian tourist markets would heighten awareness of Oman as a destination. (Note: These acquisitions would be in addition to the two 737-800 series aircraft that Oman Air recently obtained. End note.) In addition to the routes described reftel, Grauvogl also anticipated Oman Air adding non-stop service to Sanaa.

Cloudy Future

17. (SBU) The question still remains as to whether the Omani market can support two "national" carriers. Stephens asserted that Gulf Air and Oman Air do not compete, but rather together they bring more travelers to Oman. He noted that Gulf Air and Oman Air have different route structures, with Gulf Air operating a hub-and-spoke system vice Oman Air's point-to-point system. In addition, Stephens noted that Gulf Air and Oman Air codeshare on numerous flights and have similar pricing schemes on overlapping routes. Grauvogl, a veteran of now-defunct Canadian Airlines, was less sanguine, projecting that either Gulf Air and Oman Air would merge, or that the Sultanate would divest itself of Gulf Air to focus exclusively on Oman Air. He added that with Gulf Air's recent decision to relocate the planned \$50 million maintenance facility from Muscat to Manama, and Oman Air's intent to move forward on expansion plans, that decision may come sooner rather than later.

GRAPPO